

**A PLAN FOR RAILROAD
CONSOLIDATIONS, INCLUDING
A DISCUSSION OF THEIR
PURPOSE AND PRACTICABILITY**

Published @ 2017 Trieste Publishing Pty Ltd

ISBN 9781760575991

A plan for railroad consolidations, including a discussion of their purpose and practicability by
John E. Oldham

Except for use in any review, the reproduction or utilisation of this work in whole or in part in any form by any electronic, mechanical or other means, now known or hereafter invented, including xerography, photocopying and recording, or in any information storage or retrieval system, is forbidden without the permission of the publisher, Trieste Publishing Pty Ltd, PO Box 1576 Collingwood, Victoria 3066 Australia.

All rights reserved.

Edited by Trieste Publishing Pty Ltd.
Cover @ 2017

This book is sold subject to the condition that it shall not, by way of trade or otherwise, be lent, re-sold, hired out, or otherwise circulated without the publisher's prior consent in any form or binding or cover other than that in which it is published and without a similar condition including this condition being imposed on the subsequent purchaser.

www.triestepublishing.com

JOHN E. OLDHAM

**A PLAN FOR RAILROAD
CONSOLIDATIONS, INCLUDING
A DISCUSSION OF THEIR
PURPOSE AND PRACTICABILITY**

A PLAN
FOR
RAILROAD CONSOLIDATIONS

INCLUDING
A DISCUSSION OF THEIR PURPOSE
AND PRACTICABILITY

By
JOHN E. OLDHAM

Published by
INVESTMENT BANKERS ASSOCIATION OF AMERICA
NOVEMBER 1921

CONTENTS

	PAGE
Preface	5
Introduction	7
Condition of Railroad Credit before Federal Control	9
The Basis of Rates	17
Application of "Service-at-Cost" Principle	19
Consolidations — Their purpose and practicability	24
Consolidation would not destroy the credit of the "Strong" Roads	25
Consolidations Essential to Healthful Competition	26
Characteristics of Competing Companies	28
The Proposed Systems	33
A Brief Description of the Districts	42
Similarity of Proposed Systems	43
Competition among Systems	47
A Brief Description of Systems	50
Summary of Conclusions	59

TABLES

COMPARISON OF "STRONG" AND "WEAK" ROADS

Table I	Per Cent of Gross Operating Income obtained from Different Kinds of Traffic	11
" II	Classification of Tonnage	11
" III	Rates	11
" IV	Disposition of Gross Operating Income	12
" V	Per Cent of Gross Operating Income Distributed to Security Holders	12
" VI	Capitalization for each \$1.00 of Gross Operating Income	12
" VII	Rate of Return on Capitalization	12

Table VIII	Thirty systems with annual operating income of \$25,000,000 and upward	PAGE 30
" IX	Fifteen systems with annual operating income of \$10,000,000 to \$25,000,000	31
" X	Summary of all systems classified by amount of annual gross earnings	31
Tables showing similarity of Proposed Systems		44-45-46
Table of Principal Cities in the United States showing by which Systems each is served		48-49
Alphabetical List of all Class I Roads		61

LIST OF MAPS

- Map No. 1 — New York Central System
- " " 2 — Buffalo System
- " " 3 — Pennsylvania System
- " " 4 — Baltimore-Reading System
- " " 5 — Norfolk & Western-Chesapeake & Ohio System
- " " 6 — Atlantic Coast Line-Louisville & Nashville System
- " " 7 — Southern System
- " " 8 — Great Northern-St. Paul System
- " " 9 — Northern Pacific-Burlington System
- " " 10 — Union Pacific-Northwestern System
- " " 11 — Atchison System
- " " 12 — Southern Pacific System
- " " 13 — Illinois Central-Soo System

PREFACE

SINCE the railroads of the country were returned to private management on March 1, 1920, the attention of railroad executives, the shipping public, and citizens in general so far as it has concerned itself with railroad problems, has been directed to questions of immediate importance. Transportation rates, labor costs, and obligations due to or from the Government have been the problems of immediate concern.

The Transportation Act of 1920, properly called one of the great constructive pieces of legislation of our national existence, makes provision for the consolidation of the railroads of the country into a limited number of systems in accordance with such plans as may be adopted or approved by the Interstate Commerce Commission. Little public attention has as yet been given to this matter, and yet it is fundamental to any final solution of the railroad problem, since the financial soundness and credit position of the railroads of the country are dependent upon the character of such consolidations.

It is not an over-statement to say that consolidations have an important bearing upon the future success of private operation and ownership, and hence a close relationship to the question of public operation and Government ownership. It is inevitable that this whole matter of railroad consolidation will soon come into general public discussion and will receive the attention which its fundamental importance deserves.

The writer of this pamphlet, Mr. John E. Oldham, of the firm of Merrill, Oldham & Company, Boston, a former Vice-President of the Investment Bankers Association, and Chairman of its Railroad Securities Committee, in February 1920, prepared an article entitled "A Comprehensive Plan for Railroad Consolidation," which first appeared in "The Nation's Business." Later this article, amplified with sup-

plementary tables and maps, was published in pamphlet form by the Chamber of Commerce of the United States.

The present pamphlet is a further study of the same subject and presents a more carefully determined conclusion. The Investment Bankers Association has undertaken its publication and presents it to the public with the hope that its analyses and findings may constitute a contribution of value in bringing about such railroad consolidations as may be desirable and necessary to carry out the purposes of the Transportation Act.

November 1921.

RAILROAD CONSOLIDATIONS

INTRODUCTION

AT the time the railroads passed under Federal control in December 1917, transportation facilities were inadequate for the needs of the country, and railroad service generally was unsatisfactory. Facilities were over-crowded,— terminals especially were congested. Embargoes on freight and priority orders became necessary to assure the movement of the most essential traffic.

While the sudden change from a nation at peace to a nation at war brought about new and unexpected conditions and made unusual demands upon the transportation facilities of the country, it nevertheless had become evident long before our entrance into the war that these facilities were fast becoming unequal to the needs of the country, especially because of the inability of the railroads generally to raise new capital. Railroad credit had become so depreciated that investors had lost confidence in the securities of even the strongest systems. Many of the weaker systems were having serious financial difficulties, and not a few were in receivership. Many persons believed that private management was a failure and that Government ownership would be necessary to give the country adequate and satisfactory service. Others contended that the unsatisfactory financial condition of the railroads was due to the restrictions of public regulation, and that under a more liberal policy the roads could be operated successfully under private management. Agreement was general, however, that the roads should not be returned by the Government to their owners without the enactment of legislation which would make substantial changes in the policy of regulation theretofore in force, and especially legislation made with a view to rehabilitating and maintaining credit on a permanently sound basis.

The roads were returned to their owners March 1, 1920, and the success of private management under the legislation provided by the Transportation Act is yet to be determined.

It need hardly be stated that private management cannot continue unless it succeeds in furnishing the country with a system of transportation adequate to its needs at all times, and that the failure of private management will necessitate Government ownership and operation.

As sound credit is essential to adequate facilities and satisfactory service, the restoration and maintenance of credit are necessarily essential to assure the continuance of private management and to avoid the possibility of Government ownership. In order that credit may be restored and transportation conducted successfully under existing laws, the Transportation Act recognizes that further consolidations among the railroads of the country may be necessary, and provides a method by which they may be accomplished.

The relationship of consolidations to credit and the practicability of making consolidations necessary to establish credit form the subject of this pamphlet.

Part I analyzes the causes of the depreciated credit of the railroads in the decade prior to their being taken over by the Government and contains a discussion of consolidations as a factor in restoring and maintaining sound credit conditions.

Part II presents a concrete plan for consolidating the principal railroads of the country into a limited number of systems. This plan has been prepared because of the conclusions arrived at in Part I that consolidations are important and necessary for the purpose stated. Accompanying the plan are maps and statistical data to show that the proposed systems would be strong, self-supporting, and competing, in accordance with the requirements of the Transportation Act.